ECONOMIC INDICATORS

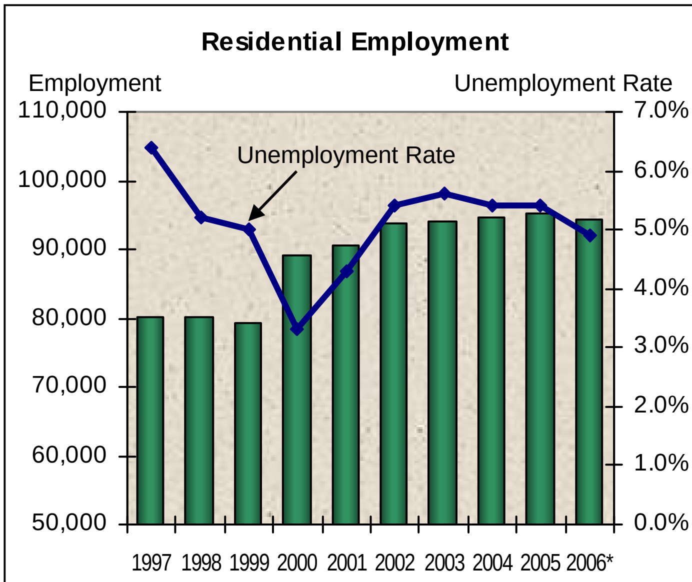
CITY OF NORFOLK
OFFICE OF BUDGET AND MANAGEMENT

MARCH 2006

IN THIS ISSUE.....

- The number of employed Norfolk residents totaled 94,458 in February. (See page 1)
- Virginia's non-farm employment reached 3,659,500 in February, increasing by 70,700 jobs or 2.0 percent over February 2005. (See page 2)
- Hampton Roads gained 11,700 jobs, a 1.6 percent increase over February 2005. (See page 2)
- Nationally, non-farm employment increased by 243,000 jobs in February. (See page 2)
- March 2006 sales tax receipts for Norfolk is $2.3 million, an increase of 6.6 percent over March 2005. Receipts are up 3.0 percent for FY 2006 year-to-date. (See page 3)
- From January through February 2006, permits issued for new single family structures and units authorized for new multi-family structures decreased by 3 permits (4.4 percent) and 24 units (61.5 percent), respectively, over the same period last year. (See pages 4 and 5)
- From January through February 2006, the average price of existing single-family detached homes sold rose to approximately $207,400, a 25 percent increase over the same period last year. (See page 6 and 7)
- Consumer confidence rose in March "to a near four-year high," driven by favorable assessment of current economic conditions and a moderate improvement in consumers' outlook for the next six months. (See page 8)
- Consumer price index for all urban consumers (CPI-U) increased 0.1 percent in February from January, driven by a 1.2 percent decrease in energy costs. (See page 8)
- Real gross domestic product (GDP) increased 1.7 percent in the fourth quarter, bringing the 2005 annual growth to 3.5 percent. (See page 9)

The ***City of Norfolk Economic Indicators*** is available online at:
http://www.norfolk.gov/budget



Source: Virginia Employment Commission. Compiled by the City of Norfolk Office of Budget and Management.

Notes: * - preliminary February 2006 residential employment and unemployment estimates.

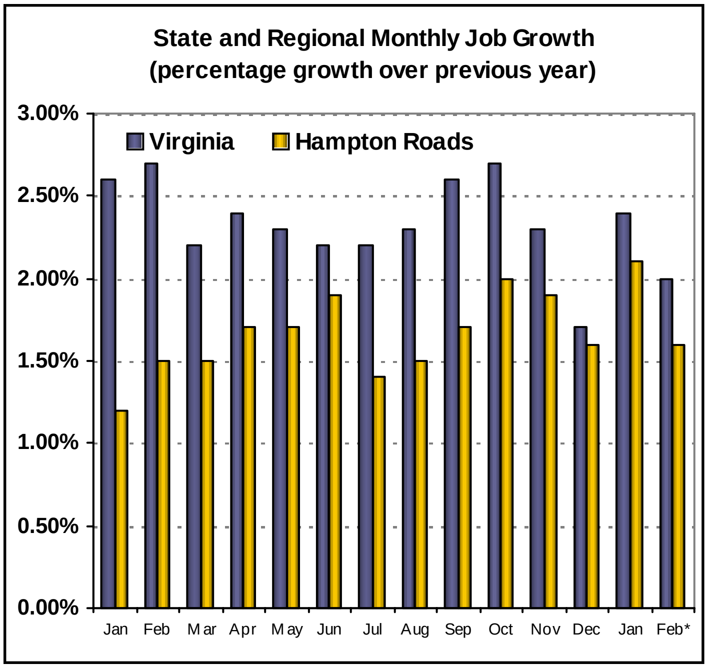
Employment

The Virginia Employment Commission (VEC), reported the number of employed Norfolk residents to be 94,458 in February, remained flat from the previous month's level but increasing 1,754 or 1.9 percent over the previous year.

Norfolk's unemployment rate decreased 0.1 percentage point to 4.9 percent from the previous month's rate of 5.0 percent, but decreased 0.7 percentage point from the previous year's rate of 5.7 percent.

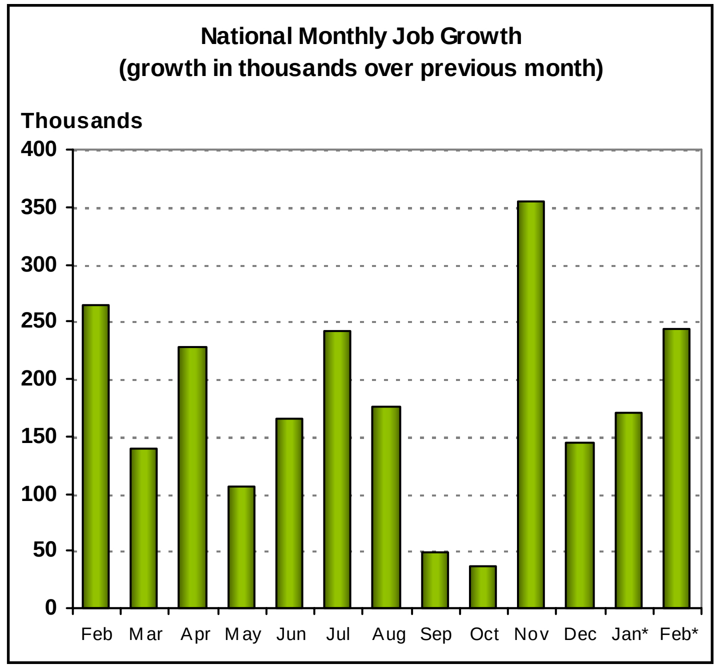
The VEC also reported that statewide and regional unemployment remained unchanged in February from the previous month's rate of 3.3 percent and 3.8 percent, respectively. Nationwide, Virginia had the second lowest unemployment rate for February.

The VEC expects a good improvement in unemployment in March, when the tourism industry starts hiring for the upcoming season.



Source: Virginia Employment Commission. Compiled by the Office of Budget and Management.

Notes: * - preliminary estimates.



Source: U.S. Bureau of Labor Statistics. Compiled by the Office of Budget and Management.

Notes: * - preliminary estimates.

State and Hampton Roads Job Growth

According to the Virginia Employment Commission, nonfarm employment in February grew 2.0 percent (or 70,700 jobs) over February 2005. Virginia's nonfarm employment increased to 3,659,500.

Construction led the statewide job growth over the previous year with 20,000 jobs, followed by professional and business services, education and health services, and government. Job losses were seen in manufacturing, information and transportation and warehousing.

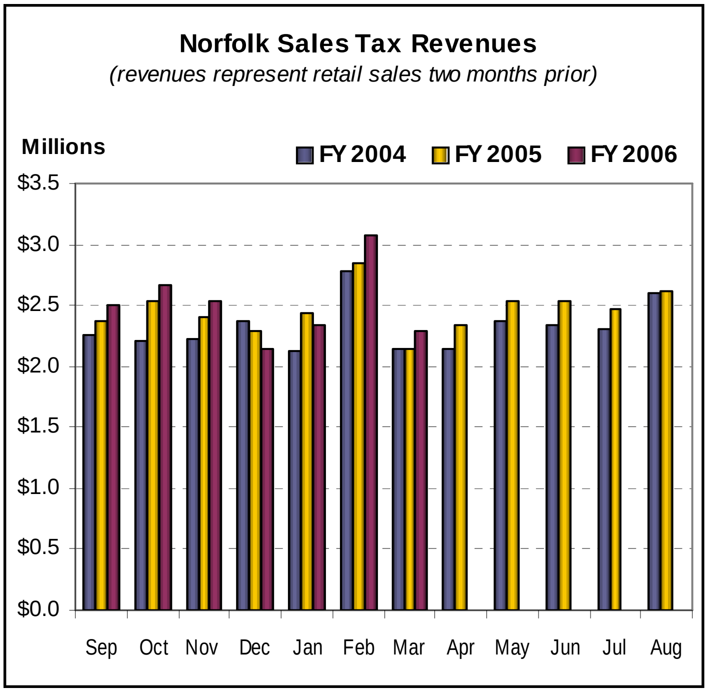
Like the Bureau of Labor Statistics, the VEC revised employment growth for each month as part of its annual re-benchmarking process. The revisions showed a "much stronger" employment growth in Virginia than the rest of the country—2.4 percent growth in 2005 (60 percent faster than the rest of the nation). Virginia also had the third lowest unemployment rate in the nation for 2005.

Nonfarm payroll employment in Hampton Roads also grew in February over the previous year by 11,700 jobs (1.6 percent) to 753,000. Construction led the growth with 3,500 jobs followed by leisure and hospitality with 2,500 jobs, government (2,100 jobs), education and health services (1,800 jobs), trade/transportation/utilities (1,500 jobs) and finance (1,400 jobs).

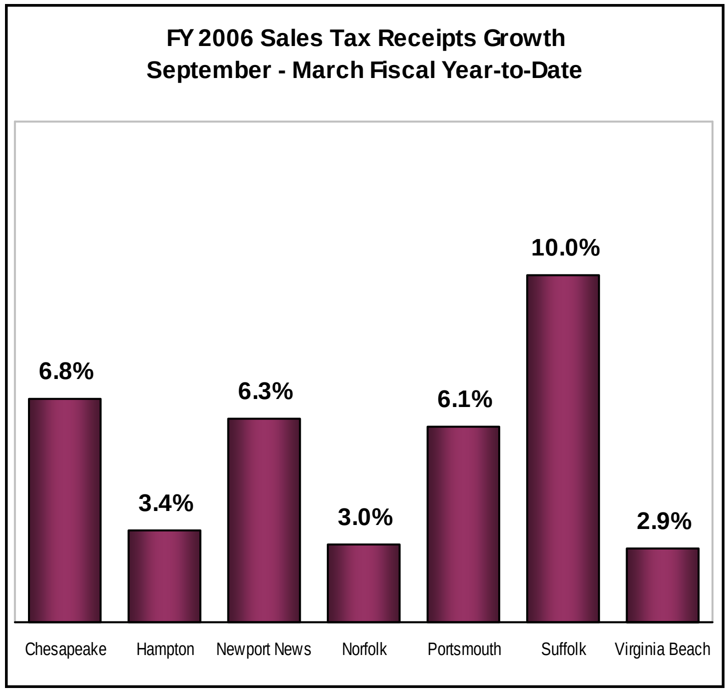
National Job Growth

In February, the Bureau of Labor Statistics (BLS) reported that non-farm employment grew by 193,000 to 134.6 million (seasonally adjusted) from the previous month. Over the past 12 months, employment grew by 2.1 million. The unemployment rate fell further to 4.7 percent (seasonally adjusted) from December's rate of 4.9 percent. BLS also reported revised employment growth for each month in 2005 in its January employment report. The revisions are in accordance with annual practice of incorporating annual benchmark revisions and updated seasonal adjustment factors. For 2005, the nonfarm payroll employment grew by 1.98 million (which is slightly below the preliminary estimate in December of 2.02 million).

BLS reported that the February growth was widespread. Except manufacturing, all major industries added jobs over the month. Education and health services, construction, professional and business services, and government experienced the largest employment increases in February. Job gains in construction in February, which followed sizable gains in January, was aided by the relatively mild winter weather.



Source: Virginia Department of Taxation. Compiled by the Office of Budget and Management.



Source: Virginia Department of Taxation. Compiled by the Office of Budget and Management.

Sales Tax Receipts

The March sales tax receipts for Norfolk, which represent retail sales made in January, is approximately 2.3 million, an increase of 6.6 percent from March 2005. Sales tax receipts fiscal year-to-date (September - March) total approximately 17.5 million, an increase of 3.0 percent or approximately $514,000 over the previous year.

Sales tax receipts from January through March, which represents retail sales made from November through January, capture Norfolk retailers holiday sales performance. The FY 2006 holiday season posted a moderate 3.7 percent gain or approximately $273,000. In comparison, last year's holiday season posted a 5.5 percent gain. This year's holiday sales growth was the lowest percentage and dollar growth since FY 2002's decline of 1.5 percent.

Neighboring Localities

Norfolk's neighboring localities likewise experienced growth in sales tax receipts over the past six months of FY 2006. Suffolk, with cumulative sales tax receipts of $4.0 million from September through March continued to have the highest growth of 10.0 percent in the region, while Virginia Beach, with approximately $29.9 million in sales tax receipts over the same period, had the lowest growth of 2.9 percent.

National Retail Sales

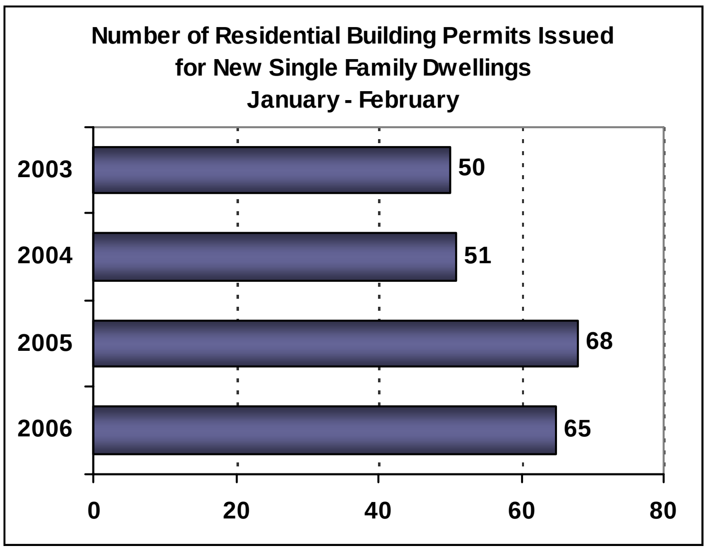
The U.S. Census Bureau advance estimates of retail and food services sales in February posted a 1.3 percent (seasonally adjusted) decrease from the previous month of January—the biggest decline in six months. Businesses that experienced a sharp decrease include auto dealers (4.6 percent), furniture stores (4.0 oercent), clothing stores (3.3 percent), electronics and appliance stores (2.0 percent) and restaurants (1.9 percent). Excluding autos, retail sales fell 0.4 percent—the biggest decline since April 2004.

Over the previous year, however, sales overall increased 6.7 percent from February 2005. Building marterials stores and gas stations posted the highest percentage growth of 20.5 percent and 17.7 percent, respectively. Excluding the 0.9 percent decline in auto sales over the previous year, retail sales grew 8.9 percent.

Residential Building Permits

New Single Family Dwellings

Permit activity January through February 2006 for new single family dwellings showed a slight decrease over the previous year. The total number of residential building permits for new single family dwellings issued January through February fell 4.4 percent (3 permits) over the same period last year to 65. However, permit activity typically falls during the winter months when construction activity falls.



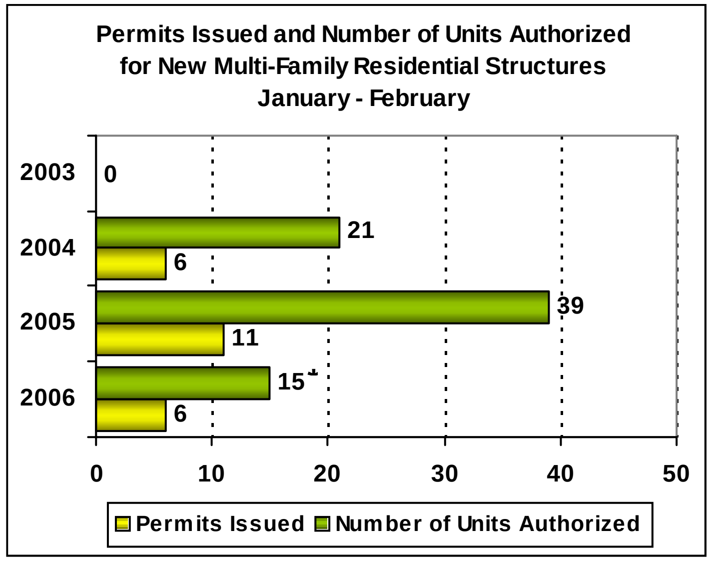
Source: Department of Planning and Community Development. Compiled by the Office of Budget and Management.

Note: The number of permits above does not account for demolitions that occurred over the same period.

New Multi-Family Structures

Permit activity for new multi-family structures (ie., housing structures for two or more families) showed a significant decrease in the number of new units authorized for new construction during the January through February over the same period last year. The number of units authorized fell 61.5 percent (24 units) from 39 units in the previous year to 15 units this year. Most of the decrease was seen in the number of new units authorized for construction in structures housing five or more families, which fell to 5 units this year from 37 last year.

* However, the number of permits and new units authorized year-to-date does not include the 99 units permitted for Harbor Heights, a mixed use project that was in the non-residential permit type. Adding these 99 units, the unit count for 2006 year-to-date is more than double the number of units authorized over the previous year.



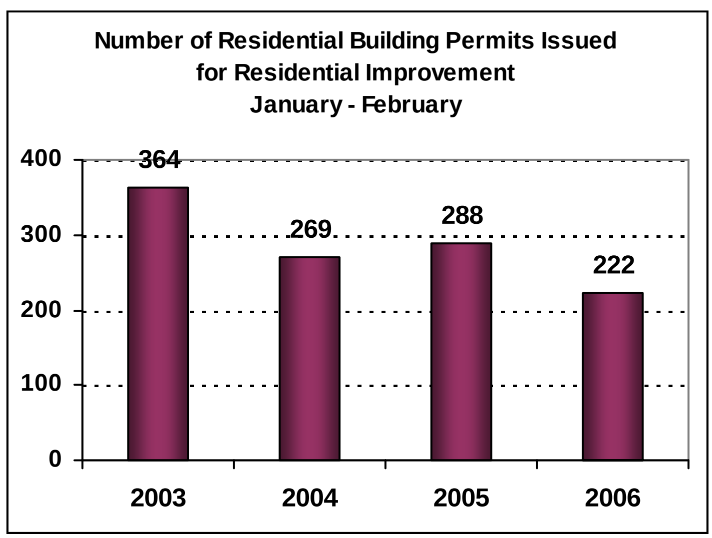
Source: Department of Planning and Community Development. Compiled by the Office of Budget and Management.

Note: The number of permits above does not account for demolitions that occurred over the same period.

Number of unit authorized in 2006 does not include the 99 units permitted for Harbor Heights, a mixed use project that was issued a non-residential permit.

Residential Improvement

The total number of permits for residential improvements issued in the first two months of 2006 fell 22.9 percent (or 66 permits) to 222 compared to 288 in over the same period last year. As can be seen in the chart below, this is the lowest year-to-date level over the past three years.



Source: Department of Planning and Community Development. Compiled by the Office of Budget and Management.

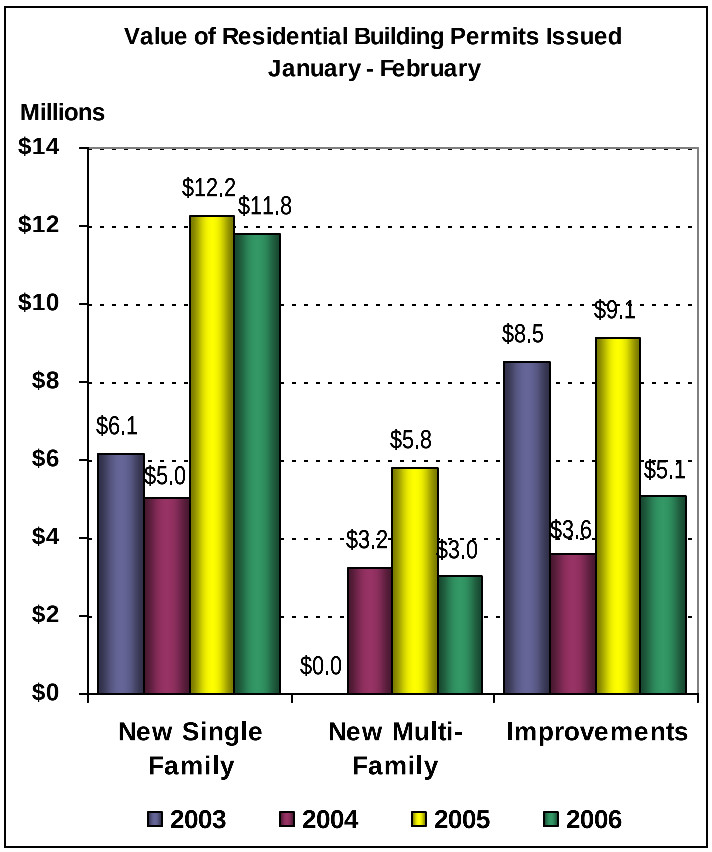
Residential Building Permits (continued)

Permit Value

The slight decrease in the number of permits issued for new residential structures in 2006 year-to-date is reflected in the decrease in the permit value of new residential structures. The value of permits issued for new single family dwellings over the year fell by approximately 3.7 percent (or $454,000) to $11.8 million over the same period last year.

Likewise, permit values for multi-family structures fell by 47.7 percent (or $2.8 million), which reflects the decrease in both the number of permits issued and the number of new units authorized for construction. However, these values do not include Harbor Heights, a mixed use project that was a issued a non-residential permit.

The value of residential improvement permits also fell by 44.5 percent or $4.1 million. Permit value reflects the estimate of the cost of construction.

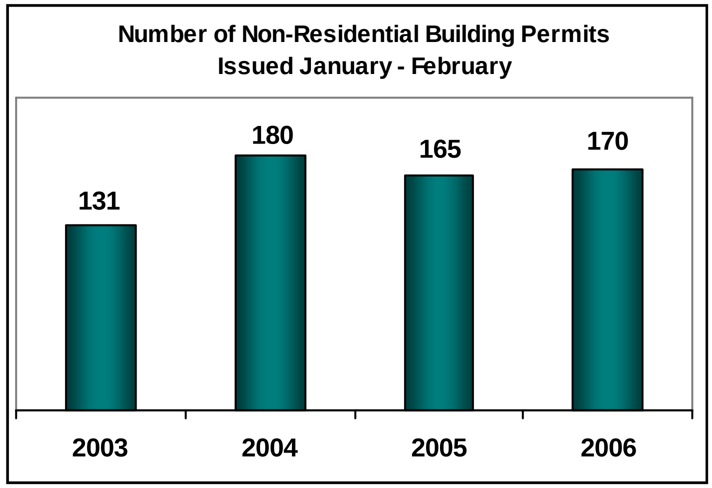


Source: Department of Planning and Community Development. Compiled by the Office of Budget and Management.

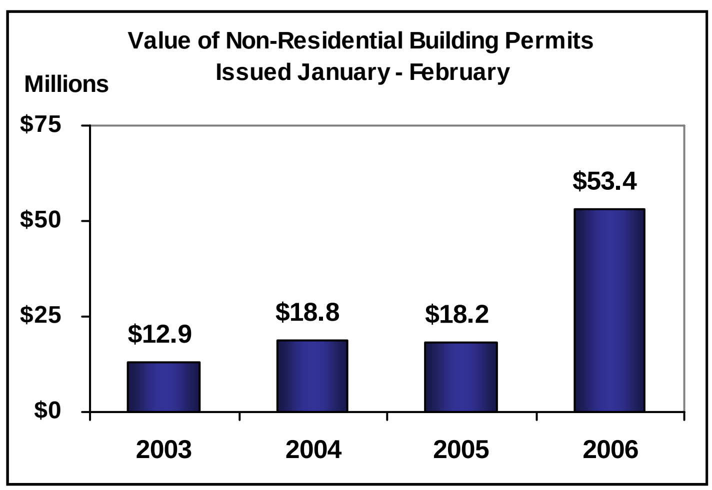
Non-Residential Building Permits

Unlike residential permit activity, both the number of permits issued and the value of the permits for non-residential structures rose in 2006 year-to-date through February over the same period last year. The number of permits rose 3.0 percent (5 permits) while the permit value more than doubled to $53.4 million from $18.2 million.

The sharp increase was due to the Harbor Heights project, construction of a new Wal-Mart and Gypsum Company expansion.



Source: Department of Planning and Community Development. Compiled by the Office of Budget and Management.



Source: Department of Planning and Community Development. Compiled by the Office of Budget and Management.

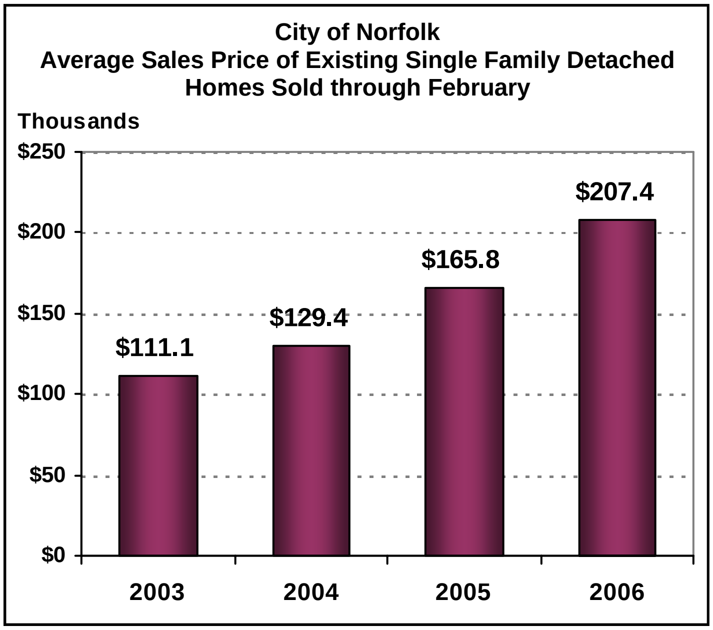
Norfolk Housing Market

Existing Single Family Detached Home Sales

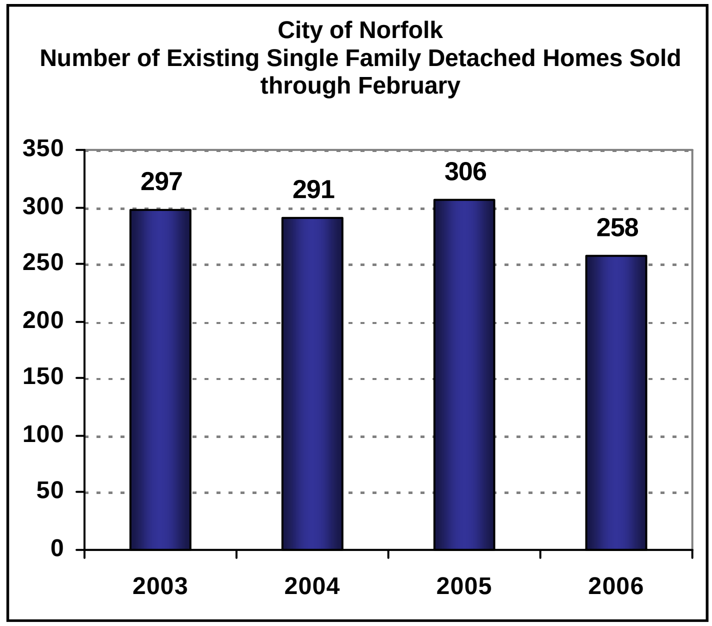
Through February, the average and median sales price of existing single-family detached homes in Norfolk remains above the same period in the past three years. The average sales price in 2006 rose 25 percent over the same period last year to approximately $207,400. The median sales price for January and February remains above that of the same period in 2003 - 2005.

However, the number of existing single family detached homes sold in Norfolk through February declined when compared over the same period last year. The number of homes sold fell to 258 from 306, a 15.7 percent decrease.

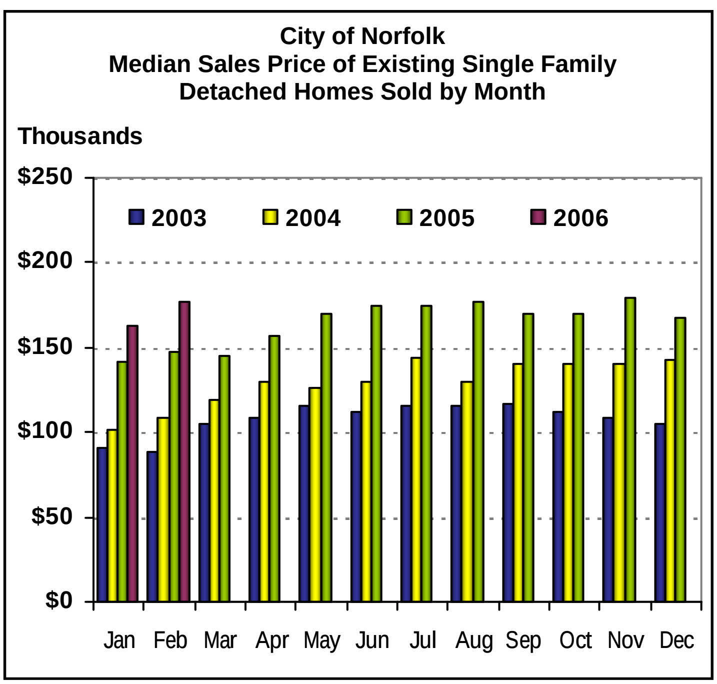
Homes are also staying longer on the market before being sold. The average time on market of detached single family home sales sold through February rose by 17 days when compared to the same period last year. This is the longest average time on market since 2003.



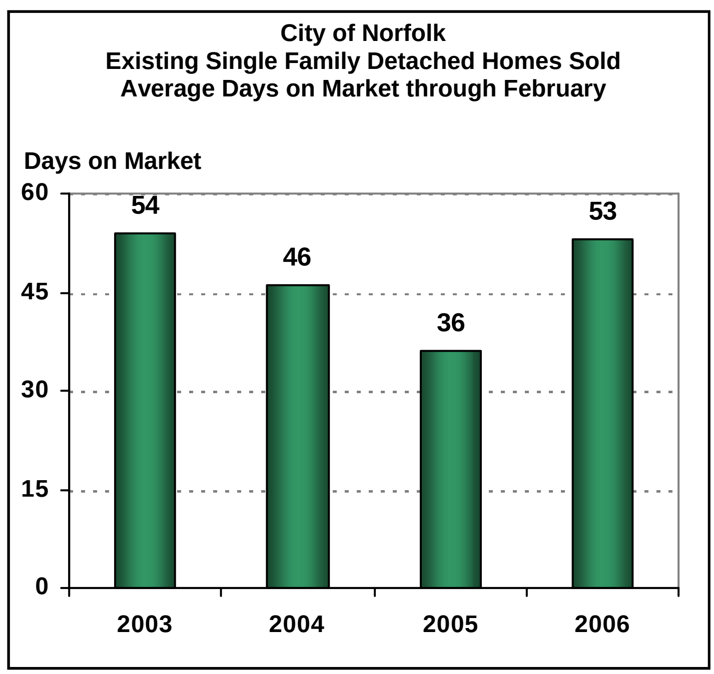
Source: Real Estate Information Network (REIN)



Source: Real Estate Information Network (REIN)



Source: Real Estate Information Network (REIN)



Source: Real Estate Information Network (REIN)

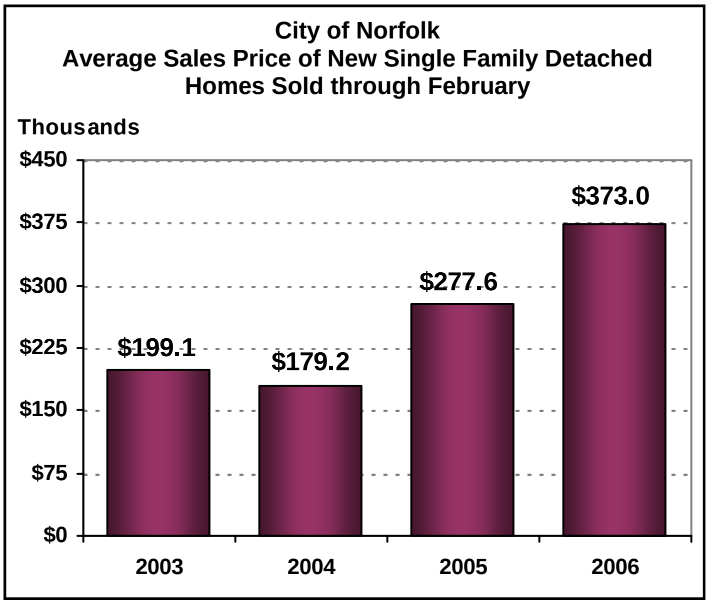
Norfolk Housing Market (continued)

New Single Family Detached Home Sales

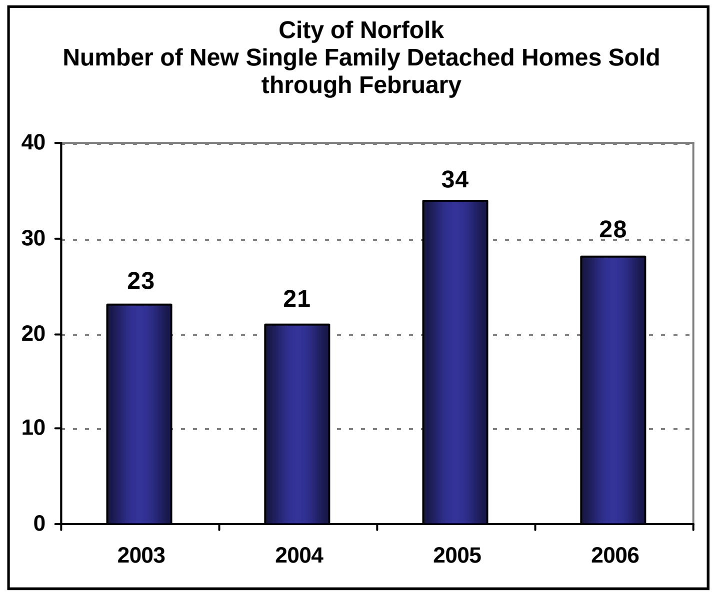
The average sales price of new single family detached homes in Norfolk rose 34.4 percent to approximately $373,000 through February over the same period last year. The average sales price remains above three-year historical averages over the same period. Following two consecutive months of decline in December 2005 and January 2006, the median sales price rose in February over the previous month and the previous year to $249,500.

Through February, the number of new single family detached homes sold in Norfolk fell by six homes (or 17.6 percent) to 28 from last year's 34 homes.

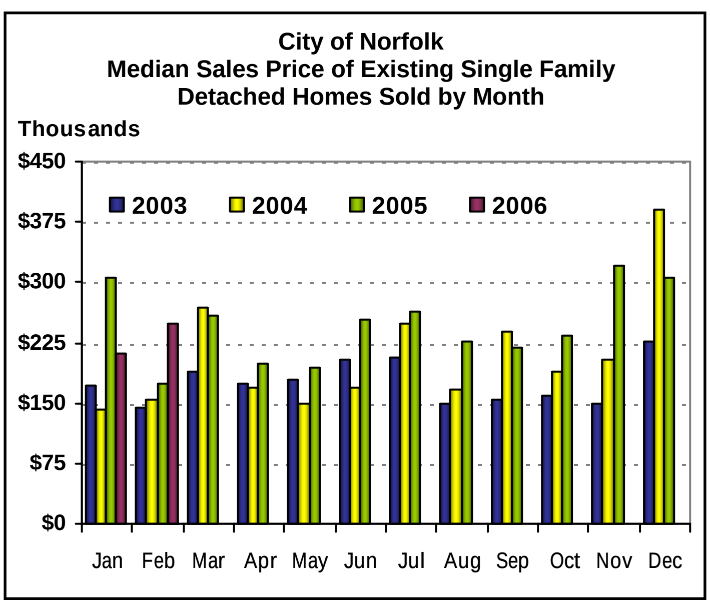
New homes are also staying longer on the market before being sold. The average time on market of homes sold through February of this year rose by 18 days to 91 days from 74 days last year. This year's year-to-date average time on market is above three-year historical averages.



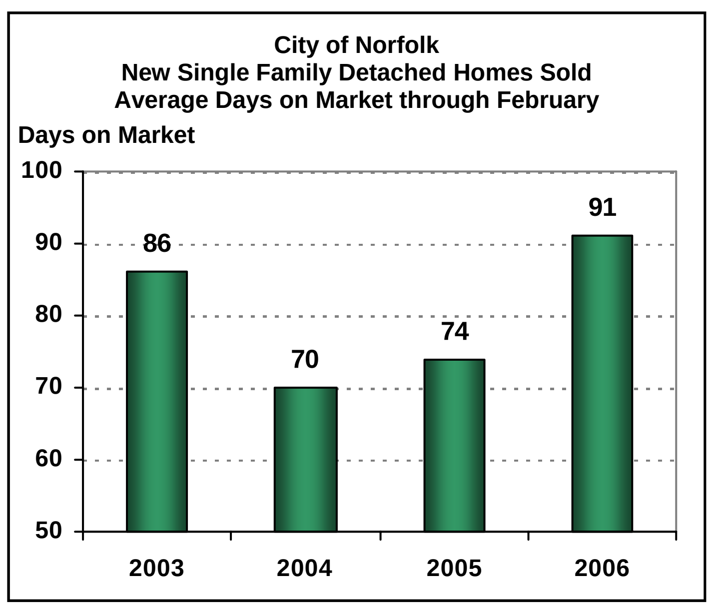
Source: Real Estate Information Network (REIN)



Source: Real Estate Information Network (REIN)



Source: Real Estate Information Network (REIN)



Source: Real Estate Information Network (REIN)

Other Indicators (National)

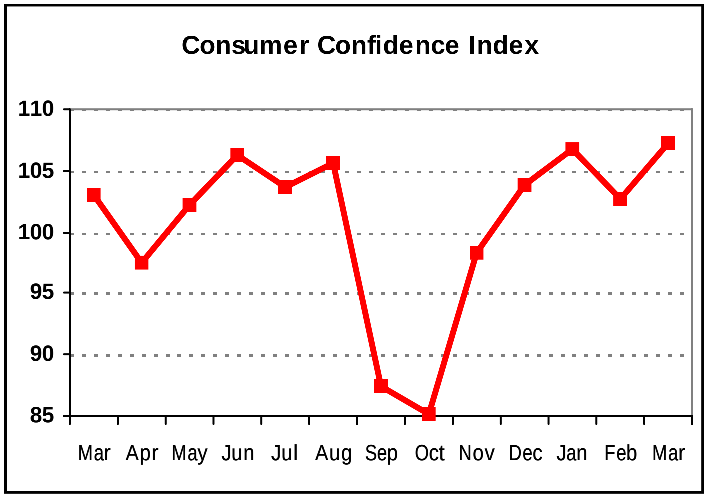
Consumer Confidence Index

Consumer confidence, as measured by the Conference Board's Consumer Confidence Index, increased in March. The index is now at 107.2, up from the revised 102.7 in February.

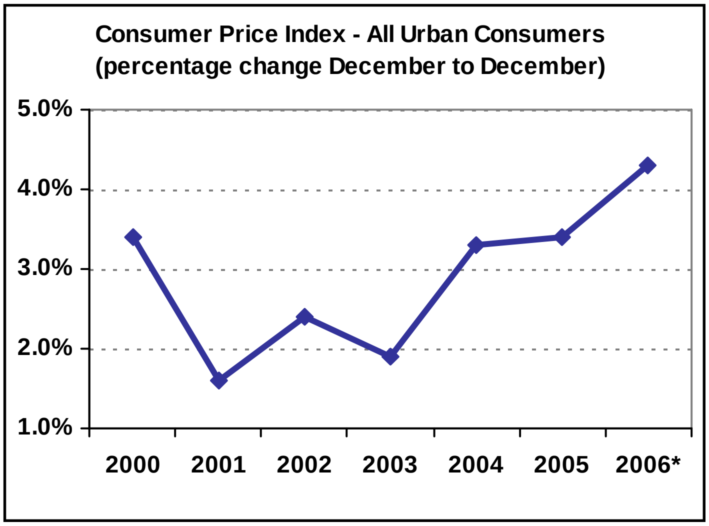
The increase is attributed to a more favorable assessment of overall current economic conditions. This is indicated by the increase in the Present Situation Index, a subcomponent of the Consumer Confidence Index, from 130.3 to 133.3.

The Conference Board also indicated that consumers' outlook for the next six months improved moderately. The Expectations Index, a subcomponent of the Consumer Confidence Index that measures consumers' confidence in future business, employment and family income six months from now, rose to 89.9 from 84.2 last month.

Lynn Franco, Director of The Conference Board Consumer Research Center indicated that "this month's gain in Consumer Confidence has pushed the Index to a near four-year high….and is another sign that the economy gained steam in early 2005. Consumer expectations, while improved, remain subdued and still suggest a cooling in activity in the latter half of this year."



Source: The Conference Board. Compiled by the Office of Budget and Management.



Source: Bureau of Labor Statistics. Compiled by the Office of Budget and Management.

* - seasonally adjusted annual rate through February

Consumer Price Index

The Bureau of Labor Statistics (BLS) reported the consumer price index for all urban consumers (CPI-U) increased 0.1 percent in February. The decrease in energy prices (1.2 percent), clothing prices (1.0 percent) and transportation costs (0.2 percent) offset increases in medical care (0.5 percent), food and beverages (0.2 percent) and housing costs (0.1 percent). The decrease in gas prices and home heating oil and natural gas prices drove the decrease in energy and transportation costs. Increase in medical care costs was driven by rising drug prices and medical care services.

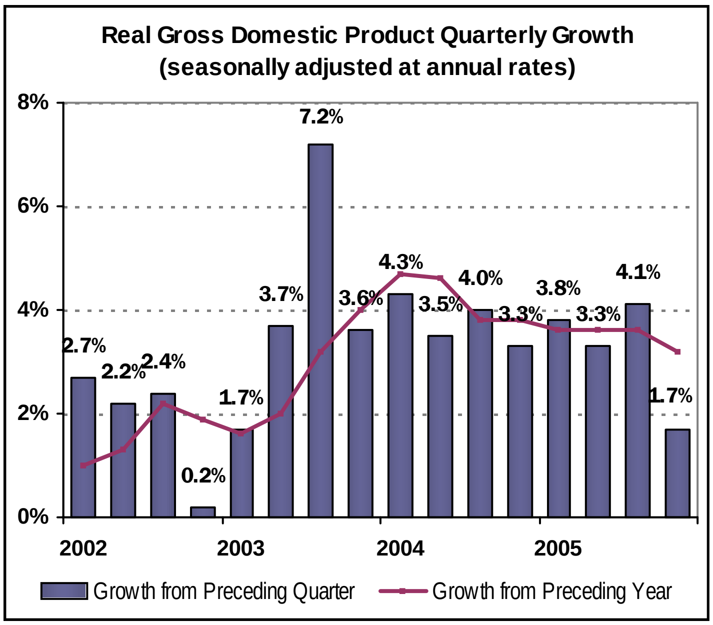
Core prices, which exclude food and energy costs, rose 0.1 percent from the previous month, following a 0.2 percent increase in January. During the first two months of 2006, the CPI-U rose at a 4.3 percent seasonally adjusted annual rate. This compares with an increase of 3.4 percent for all of 2005. Core prices rose at a 2.1 percent seasonally adjusted annual rate in the first two months of 2006, compared to a 2.2 percent increase for all of 2005.

Other Indicators (continued)

Real Gross Domestic Product

The Bureau of Economic Analysis (BEA) reported a slowdown in real gross domestic product (GDP) growth in the fourth quarter. The final estimate of real GDP growth in the fourth quarter was 1.7 percent. In comparison, real GDP grew 4.1 percent in the third quarter, 3.3 percent in the second quarter and 3.8 percent in the first quarter of 2005. The fourth quarter growth rate was revised up 0.6 percentage point from the "advance" estimate of 1.1 released in January.

The annual real GDP growth for 2005 is 3.5 percent. In comparison, annual real GDP growth in 2004 was 4.2 percent. Real GDP is the value of all goods and services produced within the U.S. adjusted for inflation and is the broadest measure of economic activity.



Source: U.S. Bureau of Economic Analysis

The slowdown in economic growth reflected:

- Deceleration in **consumer spending**, which increased 0.9 percent - in comparison, the third quarter saw a 4.1 percent growth;
- Acceleration of **imports**;
- Downturn in **Federal government spending**, which decreased 2.6 percent - in comparison, the third quarter saw a 7.4 percent growth; and
- Deceleration in **business investment** in equipment and software and **residential investment**.

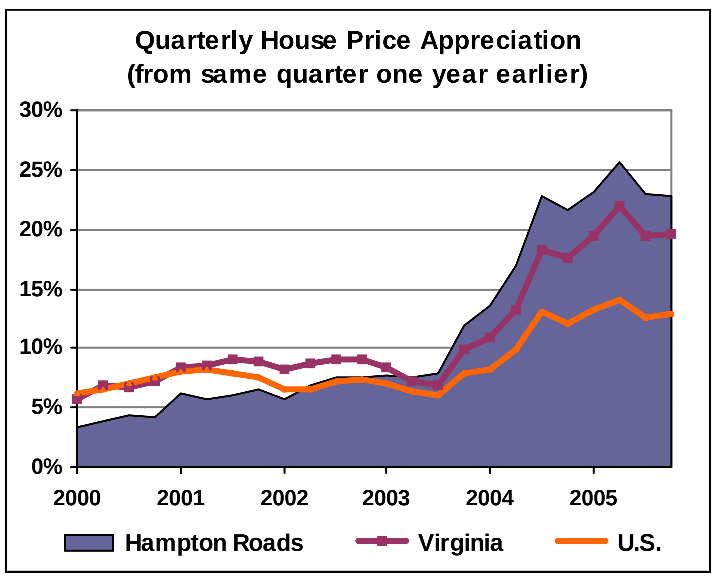
House Price Index (HPI)

The Office of Federal Housing Enterprise Oversight (OFHEO) announced that the average U.S. home prices, as measured by the House Price Index, increased 12.95 percent from the fourth quarter of 2004 through the fourth quarter of 2005.

The HPI is a broad measure of single-family home price appreciation. By tracking sales and refinancing activity of the same homes over the past thirty years, the HPI is considered to be more potentially useful than other measures that compare sales of different homes.

OFHEO noted that the nationwide increase is similar to the 12.55 percent increase in the 2005 third quarter. Patrick Lawler, OFHEO Chief Economist said, "despite recent indications that a slowdown may be forthcoming, house price appreciation during 2005 continued to hover at near-record levels." However, OFHEO reported that using only purchase price data (ie., excluding appraisals from refinancing activity), price appreciation was somewhat less, 10.81 percent increase over the past year, implying that much of the increase was due to refinancing.

Statewide, home price appreciation was 19.66 percent. Virginia ranked seventh among the states in home price appreciation. In the Hampton Roads MSA, home price appreciation was 22.82 percent, similar to the third quarter increase of 22.89 percent. The Hampton Roads MSA ranked 38 among 275 MSAs in price appreciation. Only two other Virginia MSAs experienced greater price appreciation: Washington-Arlington-Alexandria MSA (23.67 percent) and Winchester MSA (23.49 percent).



Source: Office of Federal Housing Enterprise Oversight